

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Establish  
Policies and Cost Recovery Mechanism for  
Generation Procurement and Renewable  
Resource Development.

Rulemaking 01-10-024  
(Filed October 25, 2001)

**ADMINISTRATIVE LAW JUDGE'S RULING  
FROM FEBRUARY 18, 2003 PREHEARING CONFERENCE**

This ruling transmits to parties the revised service list and my February 18, 2003 prehearing conference (PHC) statements.

Service in this proceeding is governed by the electronic protocols attached to the April 2, 2002 scoping memo. A hard copy should always be served on the administrative law judge (ALJ). Electronic service to Commission staff should be made in two separate transmittals because the Commission's server blocks messages to more than 20 CPUC addresses. The Commission is reviewing options to address this internal constraint.<sup>1</sup>

Following is my PHC statements from the February 18, 2003 PHC:

Based on a review of the outlines and comments, and discussions with the assigned Commissioner, I will give my preliminary assessment of the procurement issues and schedules we will address in 2004 and then take parties

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<sup>1</sup> Parties can access the service list e-mails by going to  
[http://webpageserver.cpuc.ca.gov/published/service\\_lists/R0110024\\_50267.CSV](http://webpageserver.cpuc.ca.gov/published/service_lists/R0110024_50267.CSV).

comments. There will also be an opportunity to file written comments by February 28, and another PHC on March 7 at 10:00 a.m.

I plan to generally follow the schedule set out in Decision (D.) 02-10-062, with the modification that there will be a separate 2004 short-term plan and the hearings scheduled for late June/early July will focus on all contested short-term (ST) issues and a prioritized set of long-term (LT) integrated resource planning issues, thereby allowing a final decision on those matters by November 2003.

The focus in the 20-year plan will be on determining the need for new resources in the next five years and making the decisions necessary to ensure resource adequacy. An issue that we will address this year is ensuring each utility maintains an adequate reserve requirement. We welcome the Independent System Operator's (ISO) request to participate in this endeavor.

Each utility's LT plan should reflect the Commission's policy preference that resource adequacy be first met through cost-effective energy efficiency programs, other cost-effective demand reduction programs, and cost-effective renewable resources. In its LT plan, each utility should specifically address how it meets compliance with PURPA requirements for QF contracts. Each utility's plans should explicitly include provision for distributed generation and self-generation resources and include plans for a 1%/year increase in renewable resources. Transmission investments that are before the Commission in other proceedings should be reflected in the LT plans and a methodology proposed for weighing the tradeoffs between transmission and generation investments.

As directed in D.02-10-062, as part of its LT plan each utility should identify which procurement proposals will require environmental review, special permits, separate applications, or other regulatory procedures or proceedings.

In developing its LT procurement plan, each utility should focus on procuring a mixture of resources that meet our definition and guidelines for reliability, least cost, and environmental sensitivity, set-forth in Section V, Resource Options, of D.02-10-062. I remind parties that embedded in these three overarching policy principles are other important objectives such as fuel diversity, infrastructure security, addressing the reliability threat posed by aging power plants, balanced portfolio mix, assessing the environmental effects of repowering or rebuilding, and local reliability.

In undertaking an integrated resource planning process, we want to avoid the lengthy litigation and complexity of the Biennial Resource Planning Update (BRPU) process. I welcome parties suggestions and have two proposals to advance. For LT modeling, each utility would use the ProSym model that has already been used by the Commission in other proceedings. For LT forecasting, the utilities would use the forecasting methodology currently being refined by the CEC.

ORA and the ISO propose other areas where the Commission's early decisions could reduce the length and complexity of the process. I request the utilities and any interested parties address the feasibility and advisability of the Commission: 1) Adopting uniform methods of cost-effectiveness testing; 2) Specifying a base case and low and high case scenario similar to that done in last year's phase; and 3) Identifying other market scenarios that the plans should reflect -- Direct Access, Municipalization and Community Aggregation scenarios are appropriate here as the Commission will set the rules and policies for these customers in other proceedings. Last year we had the utilities identify and explain all of their planning assumptions. Having seen that process, are there areas where adopting standardized planning assumptions would be beneficial.

An issue we have not settled is the specific process by which LT plans will be updated to reflect the final RPS plans. This is needed and should become clearer from our discussions this morning and afternoon. I welcome parties' proposals. Energy Division is also looking at recommending a standardized appearance or format for the plans based on a review of 2003 plans' best presentation attributes. Of the 3 LT outlines filed, SDG&E's is the preferred outline because it covers the issues before us here and does not add issues that are being addressed in other proceedings. Edison and PG&E should modify and resubmit their outlines by February 28. I agree with Edison that in considering utility ownership of generation resources as part of this proceeding, the Commission should address specific cost recovery mechanisms for it.

Before bringing up my last point, I want to reiterate how, in addressing resource procurement, this proceeding by its very nature will also address the issue of "resource adequacy." The position of the State of California, expressed in numerous statements before FERC and the California ISO is that resource procurement is fundamentally an issue of state, not federal concern. Only an entity such as the Public Utilities Commission can address the issue of reliability while also addressing the other equally important criteria of reasonable-prices, safety, and consideration of environmental effects.

As currently envisioned, the resource adequacy proposals advocated by FERC and others envision a multi-part process in which 1) forecasts of demand are determined; 2) the availability of existing resources to meet forecasted demand is evaluated; and then 3) load-serving entities identify and meet any forecasted shortfall in demand.

The steps I have outlined to address resource procurement essentially follow the same path. In this proceeding the utilities will have provided not only

forecasts of demand, but also all of the underlying assumptions that go into these forecasts. Included in these forecasts will be calculations of expected peak demand, in addition to average demand. Existing resources, both utility-owned and under contract, will be evaluated. As discussed next, we will explore taking the necessary steps to improve the level of “transparency” and disclosure of the utilities existing resource portfolio. Third, we will establish and set appropriate reserve levels for the utilities. As previously mentioned, the Commission will address the issues associated with direct access customers in other on-going proceedings.

Collectively, the activities that we undertake provide the framework for addressing resource adequacy.

The last issue I have to discuss today is access to information. Last year we were cautious as the utilities resumed their procurement responsibilities. We challenged the utilities placement of material under seal only once: when Edison redacted its entire procurement plan. As we begin the LT planning process, we should re-examine and carefully define specific criteria for market sensitive information and how it is treated. I am concerned that the material available in the public forum does not allow most interested parties to effectively participate in the proceeding or for the public to understand the basis of our decisions. The ISO in its request to amend the Protective Order raises the possibility of a third category of information, data without specific prices. Another category may be net short forecasts in LT plans being less sensitive than those in the short-term procurement plans. Another area is whether the Commission should release signed contracts, or portions thereof, submitted for our review. I would like the utilities to carefully consider these issues and on February 24 file recommended

specific criteria and comments addressing how these criteria meet the objective of ensuring the public and interested parties can meaningfully participate.

Dated February 21, 2003, at San Francisco, California.

/s/ CHRISTINE M. WALWYN

Christine M. Walwyn  
Administrative Law Judge

**CERTIFICATE OF SERVICE**

I certify that I have by mail, and by electronic mail, to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Administrative Law Judge's Ruling from February 18, 2003 Prehearing Conference on all parties of record in this proceeding or their attorneys of record.

Dated February 21, 2003, at San Francisco, California.

/s/ TERESITA C. GALLARDO

Teresita C. Gallardo

**N O T I C E**

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